

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 3499-01
BILL NO.: HB 1643
SUBJECT: Revenue Dept.; Taxation and Revenue-General-Income
TYPE: Original
DATE: February 11, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	(\$61,826,438)	(\$63,600,000)	(\$65,500,000)
Total Estimated Net Effect on <u>All</u> State Funds	(\$61,826,438)	(\$63,600,000)	(\$65,500,000)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 4 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Department of Insurance (INS)** state this proposal would not fiscally impact their agency.

Officials of the **Department of Revenue (DOR)** state this legislation allows a deduction equal to 100% of the health insurance premiums paid by an individual taxpayer, to the extent the premiums are included in the taxpayer's federal adjusted gross income and not already deducted from the individual's Missouri adjusted gross income. A line will be placed on the individual tax return and the taxpayer will be allowed the deduction whether they itemize or take the standard deduction.

The number of taxpayers eligible for this subtraction is unknown at this time, however, the Department anticipates the number will be substantial. The Division of Taxation will need one temporary tax season employee (a cost of \$6,067) for every 180,000 returns filed with this subtraction and one Tax Processing Tech I for every 3,000 pieces of correspondence received regarding the subtraction. The Division of Taxation will also need one Tax Processing Tech I for every 30,000 errors generated by this legislation.

This legislation will require modifications to the individual income tax system. The Division of Taxation estimates these modifications, including programming changes, will require 1,384 hours of contract labor at a cost of \$41,617. Modifications to the income tax returns and schedules will be completed with existing resources. State Data Center charges will increase due to the additional storage and fields to be captured. Funding in the amount of \$9,007 is requested for implementation costs and \$1,673 for on-going costs.

Oversight assumes the Department of Revenue would require 692 hours of overtime at a cost of \$20,808 for modifications to the income tax system. Oversight also estimates that funding for State Data Center charges would be \$5,630 for additional storage and fields to be captured.

Office of Administration (COA) officials state that \$4,205,036,928 in health insurance premiums were written in Missouri in FY 1998 per the Department of Insurance. COA states that according to Table 168 in the 1998 Statistical Abstract, 27.15% of health insurance premiums are paid by individuals. COA also assumes that 15% of all premiums paid by individuals are run through cafeteria plans and are not included in federal adjusted gross income. Therefore, the amount of premiums paid by individuals is lowered by 15%. COA assumes a three percent annual growth and a six percent tax rate. COA estimates that revenue would be reduced by \$61.8 million in FY 2001, and \$63.6 million in FY 2002 and \$65.5 million in FY 2003.

This proposal would result in a decrease in Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2001 (6 Mo.)	FY 2002	FY 2003
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GENERAL REVENUE FUND

Loss to General Revenue Fund

Deduction for health insurance premiums	(\$61,800,000)	(\$63,600,000)	(\$65,500,000)
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Cost - Department of Revenue

Reprogramming costs	(\$26,438)	\$0	\$0
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**ESTIMATED NET EFFECT ON
GENERAL REVENUE FUND**

<u>(\$61,826,438)</u>	<u>(\$63,600,000)</u>	<u>(\$65,500,000)</u>
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FISCAL IMPACT - Local Government

FY 2001 (6 Mo.)	FY 2002	FY 2003
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\$0	\$0	\$0
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FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This bill allows an individual income tax deduction for 100% of health insurance premiums paid by a taxpayer.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Insurance

RB:LR:OD:005 (9-94)

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Department of Revenue
Office of Administration

A handwritten signature in black ink, appearing to read "Jeanne Jarrett". The signature is stylized with a large initial "J" and a cursive script.

Jeanne Jarrett, CPA
Director
February 11, 2000